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EMPLOYEE-RELATED INDICATORS IN THE NON-FINANCIAL REPORTING IN HOSPITALITY INDUSTRY

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Abstract

Due to many social and environmental challenges in the last decade, many companies recognized the importance of non-financial reporting to provide complete overview of its performance and socially responsible behaviour. Furthermore, for some companies the obligation of non-financial reporting has been institutionalized by European commission directives. This paper explores the extent of non-financial reporting regarding employment-matters in hospitality industry in Croatia. Research objective of the paper is to assess the type and amount of information regarding employment and human resource management related issues disclosed by hospitality industry companies listed on Zagreb Stock Exchange. Research results indicate that the quantity of disclosed information increased after implementing EU directives on non-financial reporting, but there is still room for improvement. It is expected that hospitality industry companies will disclose even more employee-related indicators in the future due to the

importance they give to their human resources and the importance of such indicators is further discussed in this paper.

Keywords: *non-financial reporting, employee, hospitality industry, Croatia*

1. INTRODUCTION

Companies' business performance is usually measured by the financial and quantitative indicators presented in financial statements such as balance sheet, profit and loss account, cash flow statement, notes to the financial statements etc. Due to many social and environmental challenges appearing in the last decade, many companies, especially large ones, recognized the importance of non-financial reporting (NFR) to provide complete overview of its performance and socially responsible behaviour to users of financial statements and different interest groups. Stolowy & Paugam (2018) document a significant increase in the amount of NFR, particularly between 2006 and 2011. This change appears to be driven by new environmental, human capital, performance and strategic disclosures. According to Kotane and Kuzmina-Merlino (2011: 213), financial indicators are not able to identify all the factors that influence the development of a company, thus not providing a complete overview of its business. Therefore, besides the so-called "hard facts" - facts that could be quantified, a significant attention has lately been given to the so-called "soft facts" - features of company performance that cannot be expressed numerically (Osmanagić Bedenik, 1993: 99). Creativity, motivation or flexibility of management are considered as some of these soft facts (Vrdoljak Raguž, 2010: 108). The challenge for companies is the case that there is no single list or a finite number of non-financial indicators that should be disclosed, and their selection depends solely on the companies and their operations. Additionally, most information is presented on voluntary basis and companies often disclose only positive information, avoiding the publication of adverse information which could make the quality and completeness of such reports questionable.

According to a Deloitte survey conducted in 2007, most CEOs of the world's largest companies believe that the financial indicators themselves do not provide a complete picture of companies' strengths and weaknesses wherefore they are constantly looking for new, more "sensitive" ways to assess the general companies' conditions. Key non-financial indicators they highlight are: customer satisfaction, company innovation and employee commitment. When selecting and using non-financial indicators, companies can make mistakes that will lead to subsequent harmful decisions. Ittner and Larcker (2003: 3-7) emphasize some of the most common corporate errors related to non-financial indicators: such indicators are not in line with the company strategy, mistakes in measurement and incompatibility of financial and non-financial indicators and wrong decision making based on non-financial indicators which can additionally deteriorate financial indicators.

A recent wide-scale research on investor perspectives of environmental, social and governance (ESG) reporting, or nonfinancial reporting, and the role it plays in decision-making conducted by Ernst & Young has shown the following: (1) an increasing reliance on non-financial information (only 3% of respondents state they conduct little or no review of nonfinancial disclosures), (2) a demand for broader and more consistent data, (3) disclosure has improved, but remains uneven, (4) more concern over physical risk of climate change, (5) wanted: investment-grade accounting standards and (6) collaboration is critical to closing information gap. Nearly all investors who responded stated that integrated and annual reports were essential or very useful sources of nonfinancial information (EY, 2017).

Non-financial reporting is important, not only for large companies but also for small and medium sized entities, although for SMEs it is in most EU countries still on voluntary basis. Survey of NFR Requirements for SMEs in Europe conducted by European Federation of Accountants and Auditors for SMEs (“EFAA”) in 2018 investigated the practice of NFR for small and medium sized entities in 14 European countries. Research showed that only one country had national law that required micro entities to prepare or publish management report. No countries in the survey chose to apply the NFR to medium-sized companies nor were any elements of the NFR Directive visibly ‘trickled down’ to them in any other form (Martin and Thompson, 2018). However, when it comes to large companies, several relevant EU directives oblige companies to disclose such information.

Over the last 10 years, investors have come to place greater emphasis on ESG factors when evaluating companies in which to invest (EY, 2018), and NFR has now become legally required for some types of companies. In accordance with increasing demands for disclosure of non-financial information as a part of companies’ annual reports, this paper is based on exploration of employee and employment-related NFR in hospitality industry in Croatia. Research objective of the paper is to assess the type and amount of NFR regarding employment and human resource management practices by hospitality industry companies in Croatia. The paper will especially analyze the following research questions: (1) was there any change in NFR when comparing the period before European Commission implemented first directives on NFR and after enforcing directives, and (2) can non-financial reporting contribute to improved employment and human resources management practices. In order to obtain complete overview of information related to human resources disclosed in financial statements and non-financial reports, this paper also includes financial information extracted from financial statements (e.g. total labour costs) and additional information disclosed within notes to the financial statements.

2. THE REQUIREMENT OF NON-FINANCIAL REPORTING

The importance of non-financial reporting has been recognized by the EU, which issued a first directive in 2013 (Directive 2013/34/EU on the annual financial statements) requiring large companies with more than 500 employees to disclose non-financial information together with traditional financial information within its annual report or as a separate report entitled “management report”. In terms of content of management report, required information includes a brief description of the companies’ business model, as well as information about the risks that company is exposed to related to human rights or environmental protection, connection with its stakeholders, description of products and services that may have an undesirable impact in these areas and finally, how a company deals with environmental and social challenges and what relevant metrics it uses to measure its performance with respect to industry it belongs to. According to the Directive 2013/34/EU, a company should explain reasons for omission of particular non-financial information which could have negative effect on its’ business ensuring the protection of the company’s business. In 2014, additional Directive on non-financial reporting, Directive 2014/95/EU was enforced. Due to requirements of this EU Directive, around 6.000 large companies in EU became obliged to prepare and present non-financial information. According to the EU directive, non-financial reports (management reports) should contain information on environmental protection, social responsibility and treatment of employees, respect for human rights, the fight against corruption and bribery and diversities in the management, supervisory and administrative bodies of the company in the context of age, gender, education and professional background (European commission, 2020). In December 2019 with Communication on the European Green Deal, the Commission committed to review the non-financial reporting directive in 2020 as part of the strategy to strengthen the foundations for sustainable investment.

The form of non-financial report is not prescribed and company decides if non-financial report will be published as a part of annual report or as a separate document. As previously mentioned, the content of non-financial report is mostly prepared on voluntary basis and companies could disclose only positive information on its business or information useful only for particular interest groups. Cohen et al. (2012) indicate that considerable variability exists in disclosure practice based on both industry and size. Sierra-Garcia, Garcia-Benau and Bollas-Araya, (2018) conducted research on Spanish IBEX-351 listed companies and showed that the business sector in which a company operated was a determining factor in its level of regulatory compliance. Sensitive sector as oil and gas that emitted more gases and air pollution were the one that presented more information related to these issues. In the context of quality of disclosed information, it is also advisable that non-financial information is revised by independent auditor otherwise quality of such information is questionable. These problems could be solved by preparing such information according to some

framework but creation of such framework that could be acceptable for all stakeholders is difficult. Prescribing a single framework applicable for all companies could lead to problems related to collection of all information required by framework resulting with additional costs or final information not useful for specific user or interest groups. Moreover, disclosure of wrong volume or inadequate interpretation of non-financial information could lead to obtaining distorted picture of business performance. Standardization of non-financial information that should be disclosed could result in providing sensitive information about company to its competitors. Finally, to ensure quality of such information, company should engage auditor and ensure additional funds for its engagement, which leads to additional costs for the company.

According to the EU Directive (Directive 2014/95/EU), while preparing non-financial report, companies could apply: national framework for non-financial reporting, EU framework such as EMAS (Eco-Management and Audit Scheme) or one of international frameworks. For example, international frameworks include UNGC (United Nations Global Compact), OECD (Organization for Economic Co-operation and Development) framework, ISO 26000 (International Organization for Standardization), GRI (Global reporting Initiative), IIRC (International Integrated Reporting Council) and other (European commission, 2020). Those frameworks encourage companies to voluntary adjust their business to universal principles related to human rights, labour conditions, environment and ecology, anti-corruption etc. According to KPMG research conducted in 2017 the majority of G250 (the world's 250 largest companies by revenue based on the Fortune 500 ranking of 2016) companies (89%) are using some kind of guidance or framework for their reporting. The GRI framework is the most commonly used, in 75 percent of G250 reports applying it (KPMG, 2017). Medrado & Jackson (2015) examined nonfinancial disclosures by hospitality and tourism firms in the area of corporate social responsibility (CSR)/sustainability and found that in general, firms utilized the Global Reporting Initiative (GRI) as the standard guideline for reporting.

Reporting on employee relations and opportunities for employees has been promoted among areas that should be covered by such disclosure of information. EU Directive 2014/95/EU proposes that with respect to employee-related matters the information provided in the statement may concern the actions taken to ensure gender equality, implementation of fundamental conventions of the International Labour Organisation, working conditions, social dialogue, respect for the right of workers to be informed and consulted, respect for trade union rights and health and safety at work. In the context of employees UNGC framework sets principles related to human rights (company should respect human rights and company should not take part in violation of human rights) and labour conditions (the right to bargain collectively, abolishing all forms of forced labour, child safety and freedom, the elimination of all forms of discrimination). OECD framework states that in the context of employees a company should foster the development of human capital by providing training and education

opportunities, to raise awareness of the importance of respecting workers and their rights and to abstain from all forms of discrimination. ISO 26000, besides other areas, includes human rights, fair business practice and working conditions.

3. CHARACTERISTICS OF LABOUR MARKET AND EMPLOYEES IN THE HOSPITALITY INDUSTRY IN CROATIA

The service sector is becoming increasingly important carrier of economy and the level of employment in these activities becomes an important indicator of economic strength and development of specific region (Pirjevec and Kesar 2002: 133). Ten years ago, service sector was responsible for 40% of the GDP of developing countries and for more than 65% of the GDP of developed countries (Cooper et al. 2008: 129-130). Nowadays, according to the World bank (2020), world average is over 60%, which clearly shows that the share of service sector in total economy is constantly growing.

Although the importance of the human factor is largely reflected in the entire service sector, in hospitality industry “people and the work organization are certainly among the most important development factors” (Cicvarić 1990: 159). Hospitality can be defined as the economic activity of preparing, producing and serving food, drinks and beverages, providing accommodation services in specially equipped rooms and apartments and providing entertainment and recreation services in a special facility (Ivanović, 2012: 3). The same author states that the hotel industry is the most important part of the hospitality network, which encompasses all catering establishments whose main activity is the provision of accommodation services, and can extend their business to the preparation and serving of food and beverages. Also, accommodation plays a very important role for the overall economy, as it is estimated that about 33% of tourism spending belongs to the accommodation service industry itself (Cooper et al., 2008: 344).

In the Republic of Croatia, 105,7 thousand persons were employed in providing accommodation and food services in legal entities in 2019 (CBS, 2020). The share of employees in the provision of accommodation and food services in relation to the total number of employees in Croatia in the period from 2008 to 2019 is constantly growing, which represents an opportunity for employment, especially seasonal one, due to the fact that over 80% of overnight stays in Croatia in 2018 was realized in the period from June to September (CBS, 2020).

Jobs in hospitality industry are closely related to people and the quality of their work, and very few jobs can be successfully replaced by technical substitutes (Čavlek et al., 2011: 274). Although the human factor undoubtedly plays a key role in the entire service sector, its role in hospitality industry is almost always crucial since it largely impacts the degree of tourist satisfaction. There are many different professions within the hospitality industry, and the

majority of them requires a high school degree, which reflects on the structure of employees in the industry. Each of these professions requires certain knowledge and skills with which employees are recruited to a specific workplace, but can also be developed throughout their employment. According to Bartoluci and Budimski (2010: 18), the education system for tourism in Croatia is not properly implemented and the decreasing number of high school graduates specializing in the required knowledge in tourism leads to a large number of unskilled labor, especially during the high season. This problem was recognized by the large hotel companies in Croatia. Some of them started their own specialized education for their employees, adapted to the needs of the company. These programs were developed and carried out in the cooperation with public and private educational institutions. Furthermore, six high schools specialized in tourism education became centers of competences (financed by the European social fund), which is a giant step of positive change in the education system in tourism in Croatia.

A pull factor for employment in hospitality industry can be earnings; the average monthly net earnings per person in 2019 in Croatia was HRK 6,457 Croatian kuna, while in the food, food and service activities it amounted to HRK 5,336 (CBS, 2020). Furthermore, according to CBS (2019), the working hours in the activity of providing accommodation and preparation and serving of food in 2017 included on average 19 overtime hours, although it is necessary to take into account that these data represent the annual average, while the number of working hours per week during peak season often exceeds twice the general average. Still, the exact number of overtime work is often not recorded because of legal restrictions on the number of working hours.

Due to the seasonality of employment in the hospitality industry, preparation and service of food, the number of fixed-term contracts is limited (CBS, 2019). Despite the fact that working conditions in the hospitality industry are often difficult and unfavorable, primarily due to the seasonal nature of tourism, a large number of working hours per week during the season and working on weekends, it is evident that this activity employs an increasing number of people every year, and because of its characteristics it is a kind of "safe harbor" for the part of the workforce that is unable to find employment in other economic activities. Considering the constant growth of overnight stays both in the world and in Croatia, it is possible to predict that the share of employees in hospitality industry in the total number of employees in Croatia will continue to rise and that formal education in tourism will become crucial for provision of quality tourism service.

When it comes to the characteristics of employees in hospitality industry, there are four characteristics emphasized by the majority of authors for many years: 1) high proportion of seasonal employment; 2) high proportion of employees with lower level of education and qualifications; 3) domination of older employees; 4) domination of women. Due to the fact that tourism market is highly dynamic, it is possible to expect that some of these characteristics have changed over time. Seasonal employment is a result of seasonality of tourism and

depends on seasonality curve for each country, but still stays globally applicable. Age, education level and gender of employees in hospitality industry in Croatia are shown in Table 1.

Table 1

The total number of employees (000) and the number of persons employed in accommodation and food service sector according to observed characteristics in Croatia in 2019

	Employment	Age			Education level			Gender	
		15-24	25-54	>55	1	2	3	Male	Female
Croatia	Total Employment (in 000)	118	1,256	257	122	1,036	473	878	752
	Share (%)	7.2	77	15.8	7.8	63.2	29.1	53.8	46.2
	Accommodation and food service sector	18.7	75.1	11.9	9.8	83.3	12.6	46.5	59.2
	Share (%)	17.7	71	11.3	9.3	78.8	12	44	56

Source: Eurostat (2020)

As can be seen from Table 1, employees in the accommodation and food service sector in Croatia are mostly 25-54 years old (71%), with secondary education (78.8%) and female (56%). Contrary to some expectations, share of older employees is not too high, and even lower than in the case of total employment.

4. CHALLENGES OF HRM IN THE HOSPITALITY INDUSTRY

Human resource management (HRM) plays an important role for the overall performance and success of companies operating in the hospitality industry (Madera et al., 2017). As in all other service industries, employees are the key to achieve customer satisfaction and therefore competitive advantage. This labour-intensive industry has the image of employing low-skilled employees and as shown by Baum (2015) HRM practices in hospitality often lag behind other more proactive sectors. Furthermore, this sector, besides full time, often employs a high proportion of temporary/part-time employees that might have limited career development opportunities and experience inferior work conditions when compared to core full time employees (Davidson, McPhail and Barry, 2011; Knox, 2014). Still, direct interaction between employees and customers requires a motivated workforce that will enable high-quality service for customers. Several HRM practices in the hospitality industry have received significant attention in the relevant literature (Singh, Hu and Roehl, 2007): (1) hospitality as a career; (2) employee training; (3) employee satisfaction; (4) turnover/recruitment; (5) legal issues regarding employment; (6) gender diversity; (7) the workplace issues; (8) personnel development; and (9) employee performance measurement. Each of the

aforementioned should receive sufficient attention as a part of the HRM activities in order to support overall companies' performance objectives in hospitality industry.

Employee training and skills development is considered among key HRM activities in hospitality industry as it is a necessity to maintain service quality (Davidson, McPhail and Barry, 2011). The importance of training is especially evident in the context of high turnover rates, and it is seen as a path to maintain standardized service and customer satisfaction (Davidson, Timo and Wang, 2010). As identified by Bharwani and Butt (2012), organisations in the hospitality industry need to customize their training programs to build in competency development interventions in the areas such as interpersonal skills, cultural sensitivity and awareness, service attitude, team playing skills, technoliteracy, problem-solving and critical thinking, and cognitive capacity to apply knowledge in the operational settings.

Jiang, Lepak and Baer (2012) found that an important mediator of the relationship between HRM practices and firm performance is employee motivation. Although some studies argued that for simple jobs extrinsic motivation might be more effective, more recent research has found intrinsic motivation more important for the motivation of hotel employees and managers than extrinsic motivation (Zopiatis and Constanti, 2007; Chiang and Jang, 2008; Putra, Cho and Liu, 2017). Therefore, HRM activities that promote making jobs more interesting and meaningful might increase overall employee motivation and consequentially impact on both individual and organizational performance. Research among managers in the hospitality industry showed that their motivation was higher in organizational environment that fosters appreciation, characterized by good working conditions, and career advancement opportunities while doing an interesting job (Zopiatis and Constanti, 2007).

Additional challenge for HRM in the hospitality industry is to increase the level of employees' engagement (Bharwani and Butt, 2012). Several practices have been shown to increase employee engagement, including tangible rewards such as competitive pay, performance incentives, benefits, recognition awards etc., quality of work (perception of the value of work, elements of interest and challenge, freedom and autonomy and quality of work relationships), work-life balance (supportive environment, recognition of life cycle needs and in-built flexibility to accommodate them), inspiration and organizational values, enabling environment (physical environment, tools and equipment and job training) and future growth and opportunity (learning and development for future growth, career advancement opportunities and feedback for performance improvement) (Bharwani and Butt, 2012 after HayGroup, 2001).

Just as in all service industries, employee satisfaction is an important prerequisite of customer satisfaction and financial performance of companies operating in the hospitality industry (Chi and Gursoy, 2009; McPhail et al., 2015). Employee satisfaction will come as a result of recognition and the work

itself, participation in decision making and other intrinsically-based sources such as job design (Spinelly and Canavos, 2000; Ann and Blumm, 2020). An additional source of employee satisfaction is recognition that can result from supervisor's relationship with the employee and supervisor's training to conduct regular feedback and recognition. Internal working environment will therefore be of paramount importance for employee performance, which will through the mediation of guest satisfaction lead to greater financial performance (Chi and Gursoy, 2009).

Croatia shares some of the most common problems in hospitality industry with respect to HRM practices. Educational systems and low salaries offered to employees in hotel and catering industry proved to be obstacles that do not allow for improving competitiveness of Croatian tourism (Buneta, Ćosić & Tomašević, 2016; Ivanović, Milenkovski & Milojica, 2015). Shortage of workforce and problems with employee attraction were most recent problem for Croatian companies operating in hospitality industry. Following previous findings that emphasize the impact of HRM activities on employee engagement, skills, attitudes and behaviour, loyalty and overall hotel company financial performance (Dropulić Ružić, 2015), it is understandable that employment and HRM practices in hospitality need to be further developed due to their significant contribution to development of Croatian tourism.

5. METHODOLOGY OF RESEARCH

This paper is based on the analysis of non-financial reporting with respect to employment and human resource management related issues. Hospitality industry companies listed on Zagreb Stock Exchange (ZSE) were the subject of this research; in 2018 hospitality sector consisted of 21 Croatian company and all these were included in this research. Hospitality sector content analysis has been used to study the extent of non-financial reporting about employee and employment issues and practices (e.g. see Chan & Burgess, 2010). The assumption of content analysis is that organizations include information about their distinct practices and patterns in their documents and that information from such documents can be observed and measured (Mayring, 2000). Annual reports of these companies were inspected as data sources in order to collect any information about employees and employment.

Due to the fact that the first EU Directive tackling disclosure of non-financial information (Directive 2013/34/EU) was implemented in 2013, a comparative analysis of reporting for 2013 (before mandatory disclosure) and 2018 (after mandatory disclosure) was implemented. Furthermore, since non-financial reporting should not be limited only to those companies that are obliged to do it according Directive 2014/95/EU, information on non-financial reporting was collected for all hospitality industry companies listed on ZSE, regardless of their size and number of employees. Out of 21 examined company, 5 companies have more than 500 employees and are obliged to submit non-financial report according to the Directive. Profile of these companies is shown in Table 2.

Table 2

Profile of hospitality industry companies listed on Zagreb Stock Exchange in 2018

Feature	Distribution
Firm size	Micro 5%, Small 15%, Medium 40%, Large 40%
Total assets	Less than 150 000 000 19%, More than 150 000 000 81%
Gross profit/loss	Loss 29%, Profit 71%
Gross return on assets (ROA)	Negative 29%, 0-5% ROA 57%, more than 5% ROA 14%

Source: Zagreb Stock Exchange (2020)

The population of hospitality industry companies listed on ZSE consists of mainly medium (40%) or large (40%) sized companies, with only 20% of micro or small companies. In terms of assets, majority of companies had assets valued more than 150 000 000 kn. These companies were mostly profitable, although there were several companies that did not make profit in 2018 (29%). In terms of ROA, 57% of sampled companies had ROA from 0-5%, and only 14% had ROA higher than 10%.

Detailed profile of hospitality companies that are required to disclose non-financial information by Directive 2014/95/EU and the Croatian Accounting Act is shown in Table 3. Two of these companies have less than 600 employees, whilst three employ more than 1600 employees. Only one company did not make gross profit in 2018.

Table 3

Profile of companies required to disclose non-financial information (2018)

No.	No. of employees (year-end)	Total assets (in million kuna)	Gross profit (in million kuna)	Gross return on assets	Disclosure of non-financial report
1	529	2 624	81	3.71%	Yes – explicit
2	586	936	-16	-1.42%	Yes – included as scarce management report
3	1605	3 256	177	6.64%	No, according to article 21 Accounting Act
4	1614	3 019	308	10.70%	Yes - explicit
5	2749	4 998	260	6.73%	Yes - explicit

Source: Zagreb Stock Exchange (2020) and firms' annual reports for 2018

After collecting annual reports, they were inspected for any information regarding employment and HRM-related activities. Following on initial screening, authors defined several categories of information, and all available information was classified according the following categories:

- Number of employees
- Employee profile (information about employee age, qualification, type of employment)
- Information about educational and development possibilities for employees
- Employee relations (employer relationship with unions or employees)
- Total labour cost
- Information about annual changes in compensation
- Notes to the financial statements related to labour costs
- Description of components of compensation package (detailed information about components of compensation package other than base pay, such as performance pay and employee benefits)
- Other information (discrimination issues, working environment, employee protection etc.)

For each company every examined category was rated with 0 (no information available), 0.5 (implicitly provided information) or 1 point (fully provided information). Some annual reports explicitly stated that companies were not obliged to disclose non-financial information and therefore did not provide such information as a part of their statements. General overview of reported information about employment and opportunities for employees in hospitality industry is provided in Table 4. Information in the table shows the sum of assigned points to examined companies (0, 0.5, 1)

Table 4

Overview of reporting on employment matters in hospitality industry companies listed on Zagreb Stock Exchange

Type of information	2013 (N=20*)		2018 (N=21)	
	N	%	N	%
Number of employees	19	95.0	19	95.0
Employee profile	3	15.0	8	38.1
Education and development	3.5	17.5	9	42.9
Employee relations	2	10.0	2.5	11.9
Total labour cost	20	100	21	100.0
Change in compensation	9	45.0	11	52.4
Notes to the financial statements related to labour costs	19	95.0	20	95.2
Components of compensation package	6	30.0	8.5	40.5
Other	1	5.0	6	28.6
Total points	82.5		105	

Source: Author's work (* One company was founded in 2015 so data for 2013 was not available)

As shown in Table 4, when it comes to employment, companies in the hospitality industry rarely reveal to their stakeholders any information other than the number of employees, total labour cost and detailed information about labour costs in notes to financial statements. It must be emphasized that the disclosure of total labour cost and detailed information about categories of labour costs in the notes to the financial statements is required by national regulations and is not sign of non-financial disclosure (Official gazette, 95/16). However, when comparing annual reports for 2013 and 2018 it can be seen that the amount of information regarding human resources disclosed in annual reports, although limited, has increased. Evident improvement has been made with reporting about employee profile and employee education. According to the assigned points in Table 4, from 2013 to 2018 the number of companies that provide such information has more than doubled. Some improvement was seen in the area of compensation management as well since the number of companies that reveal components of compensation package has also increased (increase from 6 to 8.5 points). For example, some companies as a part of their annual reports included different rewards other than salary that have been offered to employees (e.g. different forms of benefits or possibilities for variable pay). Furthermore, the rating for the “change in compensation” has also increased from 9 to 11 due to the fact that several companies stated in their annual report the yearly pay increases offered to their employees. Little improvements have been found with respect to reporting about relationship with employees. Hospitality industry companies do not provide information about their relationship with unions, but a minority of them explicitly expresses gratefulness to their employees.

Significant improvement is seen with the last category of employment information labelled as “other”. Information provided in annual reports that was included as a part of this group include: anti-discrimination policies and acceptance of employee diversity, protection of human and employee rights, descriptions of human resources management activities, detailed description of educational possibilities or programmes for employees, information about working environment or description of employee engagement in the company.

Directive 2014/95/EU on non-financial reporting was intended especially for large companies and it was expected that the amount of disclosed non-financial information should have increased from 2013 to 2018. Therefore, additional analysis has been made only for selected companies that are obliged to report information after the two relevant Directives.

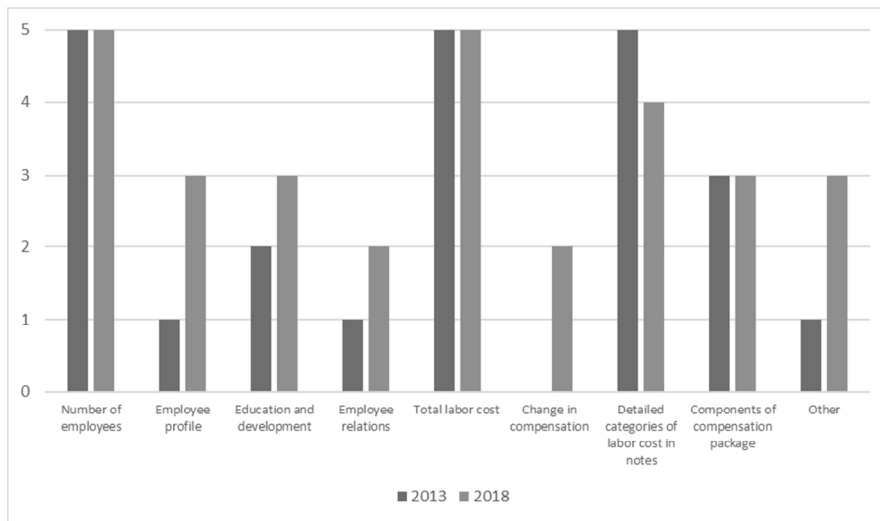


Figure 1 Comparison of non-financial information about employment issues disclosed among hospitality companies obliged by Directive 2013/34/EU and Directive 2014/95/EU in 2013 and 2018

As shown by Figure 1, the analysis of annual reports has confirmed that companies generally disclose more non-financial information after the implementation of the two Directives. However, not all companies disclose all information that was included in this research and there are still hospitality industry companies that do not disclose information about profile of employees, educational possibilities, relation with employees, annual pay increase and compensation package or other relevant information about employment. Figure 1 includes two pieces of information extracted from financial reports to obtain complete picture on non-financial and financial reporting on employment issues among hospitality companies; total labour costs and information disclosed in notes.

6. DISCUSSION AND CONCLUSION

Stakeholders and society as a whole have increasingly been recognizing the significance of non-financial information in addition to financial information (KPMG, 2018). Therefore, annual reports are becoming a comprehensive source reporting of financial and non-financial data about company's business available to public. This paper focuses specifically on non-financial reporting among 21 hospitality industry companies listed on Zagreb Stock Exchange. Hospitality industry is generating a significant proportion of Croatian GDP and constantly increasing the number of employees (Buneta, Ćosić & Tomašević, 2015). Still, as in all typical service sector industries that mostly employ lower-skilled employees (Davidson, McPhail & Barry, 2011), in Croatia average monthly

salaries in hospitality are just at the level of average pay, despite the often found overtime work (CBS, 2019). However, HRM practices in hospitality industry are intensively evolving, especially in recent years when many companies in this industry experienced a shortage of labour supply.

The research objective of this paper was to analyze non-financial reporting about employment-matters. The obligation of disclosing such non-financial information was implemented after EU Directive on non-financial reporting. The intention of such Directives was mainly protective, so in this context this paper explored employment matters and HRM practices revealed as a part of the financial statements. Authors based this research on the assumption that in order to disclose information, companies must first establish specific policies, or deductively, organizations must implement additional activities regarding their employees and HRM practices in order to disclose information about it. Therefore, disclosure of information might have beneficial effect on both employee and investor protection.

The proportion of companies that report on employment-related activities is relatively low, both among the whole population and among those companies that are obliged to disclose non-financial information. However, improvement in the period 2013-2018 is visible, and therefore with respect to the first research question, it can be concluded that after the Directive on non-financial reporting was implemented the quantity of disclosed information regarding employment matters increased, especially in the context of HRM practices.

The second research question examined if non-financial reporting can possibly contribute to improved employment and human resources management practices. Reporting about number of employees, total labour cost and labour cost according to selected categories is required as a part of annual financial statements and is very common among hospitality companies. Although such data provides some initial information about employee income (compensation) which is an important aspect of human resources management, this information was available even prior to the implementation of non-financial reporting and could not contribute further to the improvement of employment conditions.

Information about employee profile as a part of non-financial reporting could have a broader meaning in the context of accepting diversity and preventing discrimination. Still, such information is only seldom included in annual reports. Considering the high proportion of seasonal employees in hospitality industry, this information could be valuable both to current employees, investors and other interested stakeholders.

Significant improvement in employee standing could be related to educational possibilities, improved employee relations or changes in compensation packages, both in terms of pay increase and providing employees with some other forms of compensation besides base pay. In 2018 hospitality companies were disclosing such information more often than in 2013, presumably

due to the development of human resource management practices. Disclosure of non-financial information might have impacted on such practices due to the benchmark with other companies and improving own practices based on known competitor practices.

Besides information that could be classified into certain categories, several companies disclosed some additional information about their employees that could not be found elsewhere. For example, these include statements about anti-discrimination policies and acceptance of employee diversity, protection of human and employee rights, detailed descriptions of human resources management activities, descriptions of general or tailor-made educational possibilities or programmes offered to employees, information about working environmental in the company or, in case of one company, results of employee engagement survey. All aforementioned has the potential to significantly improve employee treatment which was one of the key reasons for implementing non-financial disclosure according to Directive 2014/95/EU. Overall, non-financial reports for 2018 showed that companies disclosed additional information about their human resources and will probably continue to do so in the future. Therefore, based on the content analysis of annual reports, it can be concluded that the general objective of non-financial reporting with respect to employees, contribution to better treatment of employees, can also improve some employment practices. Transparency assured through public disclosure of such information in annual reports can be an additional factor that will enable employees to improve their employment conditions. Limitation of this research is the fact that only annual reports were used as a source of information about non-financial reporting, whilst companies can share this information in other public documents as well.

Today, achieving profit should not be one and only goal for companies. Demonstration of its socially responsible behaviour in the context of environment protection, appropriate relations with employees and other stakeholders should be equally important performance indicator. Non-financial reporting will be increasingly important not only for large companies, but also for small, medium and even micro entities. In the nearer future, we can expect additional efforts of relevant international organizations, especially European union, in determining adequate regulatory frameworks for improving the quality and content of non-financial reporting. This paper can offer framework on non-financial reporting in the content of employee-related indicators.

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**NEFINANCIJSKO IZVJEŠTAVANJE U HOTELIJERSTVU –
ANALIZA IZVJEŠTAVANJA VEZANOG UZ
ZAPOSLENIKE*****Sažetak***

Brojne promjene u društvu i okolini u posljednjem desetljeću potaknule su poduzeća na nefinancijsko izvještavanje kako bi ona pružila potpuniji uvid u svoje ukupno i posebice društveno odgovorno poslovanje. Dodatno, za dio poduzeća uvedena je i formalna obveza nefinancijskog izvještavanja. U radu istražuje se obim nefinancijskog izvještavanja u vezi sa zaposlenicima u hotelijerstvu u Republici Hrvatskoj. Cilj je rada procijeniti kvalitetu i kvantitetu informacija koje objavljuju organizacije iz djelatnosti hotelijerstva, uvrštene na Zagrebačku burzu. Rezultati provedenog istraživanja ukazuju da se nakon uvedene obveze financijskog izvještavanja količina objavljenih obavijesti povećava. U skladu sa sve većom pozornošću koju organizacije u hotelijerstvu pridaju upravljanju ljudskim potencijalima, očekuje se da će količina nefinancijskog izvještavanja vezanog uz ljudske potencijale u budućnosti još više rasti te se u radu analizira važnost takvog izvještavanja.

Ključne riječi: nefinancijsko izvještavanje, zaposlenici, hotelijerstvo, Hrvatska.

JEL klasifikacija: L83, M49, Z39.